

# **Board for Financing Water Projects**

## **Workshop – March 1, 2006**

### **Carson City, Nevada**

#### **Meeting Notes**

##### Regulations and Board Policies Book

As the Board and Staff are responsible for knowing and understanding the statutes, the Board requested that all relevant statutes, regulations and bills be included in their regulations and board policies book. Several of the statutes cited for inclusion were NRS 445A.200 – 445A.295 and NRS 445A.800 – 445A.950.

The Board requested that Staff cite relevant statutes and codes with respect to the applicability of the projects.

##### New Policy on Depreciation

Grantees previously relayed to Staff that the current policy on depreciation was putting undue hardship on communities. A lengthy and thorough deliberation of the current depreciation policy and proposed alternative policies took place at this workshop.

The Board asked how our grant program integrated with other funding institutions. The USDA offered a brief review of their program and stated that they were implementing a recommended (but currently not required) capital replacement account for the projects that receive their grants and loans.

The Board reviewed the use of the funds in the capital replacement account and posed the idea of requiring the grantee to come back to the Board to gain approval prior to using the funds in the account. Legal council noted that we cannot tell them what method to use for funding depreciation nor can we tell them how they can spend the capital replacement funds.

The Board noted that we look at the viability of a system as the grantee's ability to also fund future capital improvements.

Staff noted that an auditor must disclose whether or not an entity is meeting their grant requirements – those agreed to in the Funding Agreement. If there are withdrawals from a capital replacement account they should be itemized and easily observed in a review of the account. The Board's Policy and the Funding Agreement will state that any expenditures from the account be reported by the auditor each year when the financial statement is audited.

The Board is in favor of static (constant) payments into the capital replacement account. Staff and the Board reviewed and agreed on a possible depreciation alternative that was

based on the Present Value Method and included a 1% inflation rate. The grantee's yearly contribution will also be based on a pre-determined interest rate.

The Depreciation Policy and future Funding Agreements need to include a statement that the capital replacement account must be a restrictive line item and that it appear on the grantee's audited financial statement. In addition, the Policy will include the requirement that Staff audit the grantee's contribution to the capital replacement account annually.

Any new policy on depreciation adopted by the Board would not be imposed retroactively; however, a grantee may request a change to the new plan. Requests to diverge from the Board's Policy will be considered on a case-by-case basis.

The Board will consider adopting an updated policy at the May 3, 2006, board meeting.

### Board Meetings

Board meeting books along with all supporting information will be sent via overnight mail or hand delivered two weeks before the board meeting date. The Board will be given notice at least six weeks prior to the Board Meeting if the volume of items (e.g., LOIs, grant requests, policies, etc.) will force the meeting to span multiple days.

The Board may table an item if there is insufficient information on the project to make a sound decision.

The Board requested a more easily read, consistent summary sheet for the projects.

Questions that need to be addressed in a Letter of Intent application package:

- Include cost per beneficiary (Total project cost / Number of connections).
- Include the median household income (MHI) & source of this information.
- Include current water rates.
- Water rate based on 1.5% of the MHI. Is the applicant at this rate? If not, why not?
- Were all possible funding alternatives applied for and exhausted (e.g., SRF loan, USDA loan/grant, CDBG grant, other)? If not, why not?
- Were all possible project alternatives and cost savings explored? If not, why not?
- Review the integrity and accuracy of the analysis presented by the applicant.
- Previous grant funded projects and/or non-funded projects for the applicant. Is the applicant funding their capital replacement account for any prior grant funded projects? If not, why not?
- Time frame for the project – start to finish. Is this a realistic goal? What are the individual components driving this time line?
- Is the applicant ready to proceed with the project? If not, why not?
- Does the project comply with the statutes for grants from the Board for Financing Water Projects (NRS 349.980 – 349.987)? If not, why not?
- Can the applicant fund the capital replacement account required by Board Policy for this project? If not, why not?

- Who prepared the complete project cost estimate and when? Do the costs appear reasonable based on other similar projects? If not, why not?
- Include information on extenuating circumstances such as: the MHI is very low, the tax rates are at the maximum level, the community has had multiple rate increases and it would be a tremendous financial burden on the residents to further increase the water rates.

Questions that need to be addressed in a grant application package:

- Include all information from the LOI package.
- Were there any conditions imposed or any requests at the LOI stage? If so, what were they and have they been met? If not, why not?
- Have there been any changes in the information the Board should know about?
- Were all requests for information from the Bureau of Safe Drinking water addressed? If not, why not?

Questions that need to be addressed in a request for additional funds or change of scope application package:

- Does the entity have a water rate that is 1.5% the local MHI in accordance with Board Policy? If not, why not?
- Did the entity apply for a SRF or USDA or other loan for the maximum amount possible? If not, why not?
- Did the applicant have previously imposed grant conditions? If so, what were they and what is the status of each condition?
- Discuss the options available if no further grant money is given.

### Funding for Future Irrigation Projects

The Board's Policy on funding SB200/AB237 projects will be changed. It will no longer apply to AB237 projects. Now that the grant funds are basically one large sum, the Board will decide whether or not an irrigation/water conservation project is funded. However, the Board Policy will state that it does not, at this time, fund the connection of private septic systems to sewage treatment systems. The Board will consider adopting an updated policy at the May 3, 2006, board meeting.

Staff will develop a separate application package for irrigation projects with input and criteria from the Board.

### Board Policies

### *New Policy on Construction, Engineering, and Contingency Funds*

It is the expectation of the Board that PERs investigate all possible solutions to water system problems, present the most cost effective solution that will meet the drinking water standards and contain accurate and complete cost estimation.

It is not reasonable to use a flat 15% of the construction budget as the engineering budget. Some projects will require significantly more or less engineering and, therefore, the engineering estimate needs to be accurate and complete for the proposed project.

The grant request and any subsequent Funding Agreement are to be accurate and complete with respect to construction, engineering, and contingency. All design and/or material changes that occur during the project must be detailed and submitted to Staff for approval per the requirements of the Funding Agreement. Staff has the authority to move funding between categories based on a detailed and reasonable request from the grantee.

The Board will look at this policy to suggest what specific items should be estimated in the construction and engineering categories.

The Board will consider adopting a new policy at the May 3, 2006, board meeting.

#### *New Policy on Changes in Grant Funding or Project Scope*

Requirements for grantee requests for changes in project scope and/or grant funding were discussed. The proposed new Policy also includes the conditions that 1) the grantee has reviewed all possible alternative designs that would meet the project needs, and 2) the grantee has chosen the most cost effective alternative.

The Board will consider adopting a new policy at the May 3, 2006, board meeting.

#### *Policy on the Grant Scale*

After deliberation, the discussion appeared to favor removing Item 1 A. Existence of an imminent risk to public health as determined by the State Health Division. This item is not consistent with the SRF priority list categories. A system with such an issue would generally not have the time to go through a grant process.

Under some circumstances, the Board recognizes that there might be time to go through the grant process even with an imminent risk and, therefore, included this item as a possible factor in Item III.

The Board will consider adopting an updated policy at the May 3, 2006, board meeting.

### Project Pace

It has been noted that a number of projects have not made reasonable progress and/or have not submitted pay requests in reasonable time frames. Funds obligated to these grants that sit in an account and are not used are subject to arbitrage. In addition, the treasurer's office would not approve additional bond sales until such a time as the funds showed use.

The discussion appeared to favor that grantees not showing reasonable progress and/or not submitting pay requests should begin receiving a series of letters from Staff reminding them of their responsibilities under the Funding Agreement. Initial letters would request information on project progress, timelines, and billings. Should subsequent letters be necessary, the grantee may jeopardize chances of receiving any additional funding for the project should that become necessary or may be asked to appear before the Board to explain the delays. Failure to meet the requirements of the Funding Agreement could result in the deobligation of the grant funds from the project.

The Board noted that projects over 2 years old showing no reasonable progress might be looked at with disfavor should they come back to the Board for further funding. The USDA noted that they are in the process of deobligating funds for projects that are not progressing.

### LOIs and Grant Applications for PERs

Applicants have suggested that requests for funding for PERs require only a grant application and not a LOI. According to legal council, the regulations require both and would need to be changed before this could occur.

Previously, all of the funding agencies planned to work together to approve PERs. While this has not been consistent, Staff will attempt to work closely with other funding agencies to assure that there is a process for joint sign-off on PERs.

### Regulation Changes

Other changes to the NACs have previously been proposed but were never finalized. Staff will send the Board a copy of the last marked up set of NAC 349.430 – 349.574. The discussion appeared to favor making changes for the next Legislative session.